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of problems of agricultural adjustment.

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AGRICULTURAL PLANNING IN A DEMOCRACY

Adapted from a speech by Chester C. Davis, Administrator,
Agricultural Adjustment Act, before Nebraska Organized
Agriculture meeting, Lincoln, Nebraska, January 10, 1935.



Planning, in a democracy, is a method by which the people use foresight in deciding what they want to do in order to attain a better national condition of living. If the device of government can be used to assist, that is its function. It is the purpose of government to promote the general welfare by enabling the people to do for themselves what they otherwise could not do. This function extends to the field of economic conditions as well as to political conditions. Especially it applies to those that touch closely upon the human needs and the national human welfare. Such functioning is not only within the province of government; it is the responsibility of government.

Nor, in a workable economic democracy, does the responsibility of government end with assisting the people in making plans. The working of an economic democracy must include both planning and action. If planned action does result, serious problems may be overcome, problems before which a mass of struggling individuals in a planless government would be helpless and lost.

Under the new order, several such plans and actions have been advanced in the field of agriculture. They have had some results; more than three million farmers have been working together to carry them out.

Since 1932 farm prices have advanced further and more rapidly than industrial prices. That is as it should be, because farm prices were far below their normal relationship with other prices. The effect of such farm improvement as has taken place has been felt in better business and a stronger pulse of encouragement throughout the land. But it must be clearly understood that the ground which has been gained is merely a beginning. The real results for which farmers have fought, an equality for agriculture with other elements in our national life, are ahead of us and yet to be achieved. The farming business, having fallen further, has the greatest distance to come back. Perhaps the nation has grown accustomed during the post-war years to buying its food and raw materials from the farmers at less than fair exchange prices. In the end it did not do anybody any good -- in weakening agriculture, the nation was weakened. Thus far the other elements

in the nation have shown sympathy with the farm effort. If they are kept informed it should be possible to hold that sympathy and maintain that support.

Industry Cut Production and Agriculture Cut Prices

The important thing is to keep the actual facts before the public mind. The outstanding fact as I see it is that by 1932, non-agricultural industry had cut its production more than in half in order to hold its prices up to within 15 percent of the high point of 1929. Agriculture, on the other hand, had cut its prices far more than half by 1932, by maintaining its rate of production practically at the 1929 level.

Let us examine this situation for a moment. We may be conservative in our examination, for it calls only for a simple review of some facts.

Here is the spectacle of industry, which kept production down to an annual average of only 57 percent of its 1929 production for the last five years, putting the tongue in the cheek and crying "Shame" at the farmer who maintained an 87 percent level of the 1929 production during those same five years.

In other words the farmer has been, and is today, the greatest producer of them all, compared to former levels of production. But in spite of that, so prevalent is lack of knowledge of these simple facts, that popular opinion still criticizes the farmer for "cutting down production" and little popular attention is paid in the press and on the street, to the much larger reductions made by industry.

The irony in this paradox of agriculture getting the blame while industry cuts down production is accentuated by three further facts:

One is that industry cut down production immediately that demand fell off, before unsalable surpluses had been produced in any quantity. It cut down production to 78 percent of the 1929 level the very first year of the depression in 1930; to 58 percent in 1931, and to the scarcity level of 41 percent in 1932. Agriculture, on the other hand, waited until the largest supplies of her products in our history had piled up, unsold at bargain prices, before she finally began a planned control in 1933. That year the production was 93 percent of the 1929 level. Last year, even in spite of the drought it was 85 percent.

The second accentuating fact is that by cutting down production as I have indicated, industry maintained her price level far above that of agriculture. A whole story is told in the interesting comparative figures which show that during the five years since 1929 industry maintained an average price level of 84 percent while sacrificing production to 57 percent. During the same five years agriculture in the face of an average price level of 60 percent continued to furnish goods to the world at a production level of 87 percent. Between that 84 percent price level of industrial goods and that 60 percent price level of agricultural goods there was a large gap indeed. Some might call that 24 percent advantage to industry the equivalent of a "processing tax" of that amount, which the con-

sumer paid while factories maintained idle floors. Call it a "processing tax" or a "planless tax" or a "protection tax" or whatever you like, the penalty was exacted.

Unemployment The Result of Industrial Adjustment

The third fact that accentuates the paradox I mentioned above is that when industry withdrew from production and closed the factories down, millions of workers were thrown into the army of the unemployed while agriculture's modest reduction three or four years later added comparatively few to the unemployed. In fact, at the depths of depression agriculture absorbed and fed large numbers of jobless people who drifted out of the cities back to the farms.

And yet occasionally some street corner philosopher will castigate the farmer for putting a few of his acres in pasture and grass instead of into cotton or wheat or corn. The same critic will growl because the price of agricultural products has finally gone up above the starvation prices the farmer received for so long, and yet never begrudge a manufacturer the reasonable right to have cost of production plus a profit. Let industry and practically every other field of production in the United States look over its own practice before criticizing the farmer for the comparatively slight reduction he has made.

Under our supply and demand economics there are of course, two ways to bring about balanced exchange between the products of agriculture and industry. One is to hold a check-rein on agricultural production and thus get higher dollar prices for the farmer. The other is to speed up industrial production and sell that output at lower prices.

Studies show that if we could obtain about a 45 percent expansion in industrial output it would bring about a rise in agricultural prices through increased employment and purchasing power sufficient to restore the relationship between agricultural and industrial prices that existed in 1929. A sharp reduction in industrial prices would also result in restored agricultural purchasing power.

Nor are these two trends inconsistent, one with the other. An effort to increase industrial production at the same time there is an effort to decrease slightly agricultural production is not contradictory. They swing out of balance in opposite directions; they must be swung back in opposite directions to get balance again.

So much for industrial production control, as contrasted with planned production for agriculture. I now want to turn for brief consideration of the relationship between the farm adjustment programs, and the drought.

The adjustment programs have demonstrated how they serve agriculture in years of drought as well as in years of big yields. In good years they furnish some protection to the farmer from the disastrous effects of surplus supplies. In poor years they furnish the farmer protection by insuring him some cash income regardless of the drought and yet because of small yields per acre, do not materially reduce supplies.

The fact that Nature so far outdid man in his efforts to keep agricultural production in line with effective demand should not discourage us. Nature has outdone our efforts before. A good farmer has always employed the best farming practice he knew in order to get the biggest returns for his labor. If he added a few bushels per acre through his effort he felt he did well. Perhaps, the next year, Nature came along and added twice that many bushels with one stroke. But that demonstration of the power of Nature did not discourage the wise farmer from continuing his own effort to do the best he could. Control of production can not all be left to Nature.

Feed Shortage Would Have Been More Acute Except for Adjustment Programs

Programs

Now let's look at the feed and forage situation that was caused by the drought. The fact that this food shortage would have been infinitely more acute except for the adjustment programs must not be over-looked. Uninformed critics sometimes find it easy to persuade unthinking people of just the opposite.

Millions of acres of land already had been changed over from cotton and wheat production to grass and feed crops in line with the adjustment programs. When the drought struck, farmers who had conserved moisture in their contracted acres by summer fallowing had land especially conditioned for producing feed and they were encouraged to plant that land to the limit.

Probably five or six millions of tons of forage were added to the nation's supply as a result of this shift from basic commodities to hay and forage production.

Livestock Reduction Helped Offset Feed Shortage

The reduction of livestock numbers did more to alleviate the feed shortage than millions of bushels of additional corn could have done. The drought made this reduction inevitable, but it was effected largely through the cattle-buying and meat conserving efforts of the Triple A instead of through the prolonged method of starvation and waste that otherwise would have occurred. The drought caused the feed shortage; the adjustment programs softened the blow.

How much more tragic the feed shortage would have been had the scanty feed supply been called upon to carry through the 5 or 6 million extra pigs that were eliminated from feed demand through the emergency hog buying program in the fall of 1933. How discouraging the reaction on the market would have been all through the year had it been glutted with those extra 5 or 6 millions of feeder pigs in addition to those forced onto the market as it was because of lack of feed.

Some pigs were sacrificed on the farm because there was no more feed for them and because selling them would not pay marketing costs. Such a sacrifice was a waste of the feed already consumed, a waste of the hog, a waste of the farmer's labor and a waste of potential pork. Other light pigs sold for little more than marketing costs. How much worse the situation

would have been had millions more been dumped on the already over-loaded market. Instead, the farmers received a bonus price for the pigs sold to the government in the fall of 1933 instead of a sacrifice price; feed was saved, and the edible pork was turned over to relief.

How much worse both the feed and market situation would be right now except for the reduced farrowing of pigs last spring.

Much more serious than the plight of hog producers was the plight of the cattlemen, who were caught by the drought with the largest breeding herds of cattle in our history.

In spite of the fact that the average farm price of cattle in 1933 was the lowest in this century, in spite of the fact that practically every other field of production, both industrial and agricultural, was retrenching, and in spite of the fact that cattle numbers were already approaching a record peak, the cattlemen were still further increasing their herds. They were victims of their individual inability to avoid cutthroat competition with each other.

The fact that some 8 million head of cattle were bought by the government, at prices much higher than could possibly have been hoped for from a private buyers' glutted market, relieved the feed shortage still further.

Production Must Be Planned In Light of Future Demand

Now, so far in this discussion, I find I have been talking mostly about the past. This is a new year. Let us look for a moment to the future.

We must always plan to plant, as our fathers and grandfathers have done before us, with an eye to the prospective demand. The demand for corn is from hogs and cattle. If that demand promises to be heavy we need heavy corn supplies; if the demand promises to be light we need light corn supplies.

It is easily apparent that with the decreased livestock numbers in the country today and for 1935 the demand for feed will be light.

There can be no argument there from anyone, I am sure.

The normal response--which history has written out for us in plain handwriting on the wall--to a severe but temporary feed shortage is heavy plantings the following spring.

If this practice is followed again this spring in spite of our lessons of the past, given normal yields, we will have an excessive corn supply. An excessive corn supply would be disastrous in the face of an adjustment of over 30 percent in hog numbers and between 10 and 15 percent in cattle numbers since a year ago. This much of a livestock adjustment is the equivalent of at least 15 million acres of corn or between 350 and 400 million bushels.

There will be a temptation of course to do that very thing. Let us not be confused by the sight of empty corn cribs and the present high price, and forget that prices can fall as rapidly as a new crop can fill those cribs.

What would be the result of a large corn crop next year?

Cheap corn!

What would be the result of that?

An increased hog and cattle production to follow and another weary cycle of livestock production to result in cheap cattle and hogs again!

There has always been wisdom in keeping corn planting down, and building soil fertility up for the future, in years when the demand for feed promised to be light. Our fathers and grandfathers have done it historically.

Every farmer you have ever known has increased and decreased his acreage of crops and his numbers of hogs from year to year as he considered the prospects for the future. He was not then accused of "waste" or "scarcity" or "idle acres". It was planning.

So it is today.

Benefit Payment Plan Removes Penalty on Those Who Plan

The trouble with the practice in former days was that the farmer who expanded helped to defeat his neighbor's effort toward planned production, although he benefited from that effort himself. Those who accomplished the desired result for the good of the whole carried the load for the non-cooperating neighbor. And if enough of them failed to plan, the farmer who did plan was penalized for his wisdom. The result was a helpless regimentation into disastrous universal over-production.

The benefit payments to cooperators provide a means for insuring the cooperator at least an even break with the neighbor who grows too much. It removes the historic penalty that has always been paid by the farmer who let his heavy-producing neighbor ride on his back to high prices. The benefit payment device has made the adjustment programs possible. Production control by education and persuasion has been tried repeatedly. It has been tried carefully and earnestly. It has had the sympathetic approval of the farmers themselves.

But it has never worked.

There must be an advantage of some kind to the cooperator who does reduce to compensate the advantage seized by the non-cooperator through expansion. The benefit payment device has offset that advantage. It is not designed to give an undue advantage to the cooperator, it is designed merely to protect the cooperator from the advantage that has always been taken of him.

But there can be no benefit payments without a fund of some kind to pay them from.

The processing device provides that fund. It is only a detail of the adjustment program to be sure; but since it is a detail without which there could be no program; it deserves discussion.

Although it is a simple mechanism in itself, the processing tax seems open to some confusion as to who actually pays it, especially in the case of hogs. In the East the impression is widely spread that the packer has passed it all to the consumer. In the West there is widespread conviction that the producer pays it. Many processors represent to us that they absorb much of this tax themselves. No unprejudiced study that has yet been made has been able to determine that any one group pays it all, or the exact extent to which any one group has paid it. In general it can be said that when supplies are large and constitute the dominant factor the tendency is for the producer to pay it; when supplies are short and demand dominates, as it does when receipts are light, the tendency is toward reflection in higher prices to the consumer.

In this connection it is interesting to determine whether those who object to the processing tax are conscientious, sincere objectors to the principle of production control, or simply professional obstructionists who, perhaps because of political bias find themselves unable to weigh current efforts and plans on their economic merits.

For instance, those who favored the McNary-Haugen principle of the equalization fee find it difficult to object consistently to the processing tax. Those who advanced good sound reasons, under the Farm Board regime, for acreage control and begged for restriction of production find those arguments coming back at them now as they argue that reduction is sinful and uneconomic although even greater supplies have piled up unsold. Those who have been loud in asking for cooperation among farmers now find it difficult to belittle the largest cooperative effort ever undertaken in behalf of agriculture, with more than three million farmers actively and voluntarily cooperating with their neighbors.

But there are genuinely sincere objectors to the processing tax, of course. These may be divided into two classes. There are those who are opposed to the entire adjustment program and hence, the processing tax. Then there are those who are strong supporters of the adjustment program, including the benefit payments, but who want to finance it in some other way. Usually these people have no other alternative to suggest.

To the first group must be pointed out the fact of our diminishing foreign markets. When we were a debtor nation - as we had been throughout our entire national history - we could sell our products abroad, to our creditors. With our change from a debtor nation to a creditor nation, without making an effort to adjust our tariffs and imports accordingly we lost much of our very valuable foreign market. During the last ten years our exports of lard and pork products have declined by the equivalent of more than eight million hogs annually. More recently than that our wheat exports have dwindled by some 225 million bushels annually.

In other words, our foreign markets have declined by the equivalent of the entire wheat and hog production of both Nebraska and Kansas combined, with all of Nebraska's hogs and with all of Kansas' wheat.

We cannot lose that large a customer and still continue to produce on the same scale as before. Add to this the fact that, stimulated by the temporary war-time demand, we changed from grass and pasture to cultivated crops some 40 million acres of land which was not changed back to grass again. Add to this the fact that the automobile, the tractor, and the truck have displaced horses and mules by a sufficient number to consume the products from some 30 million acres of land. Add to this the fact that, in spite of below-cost-of-production prices to the consumer, agricultural supplies had piled up during the winter of 1932-33 to the largest in our history. When all these have been carefully added read the answer and see what it is.

The answer is, "We were producing beyond our effective demand. We must control our production."

But I have already shown--and you all already know--that control of production cannot be accomplished through the individual effort of farmers working alone. That has been tried so many times before. There must be some financial reward for the cooperator to offset the advantage taken by the non-cooperator who increases his crop. The benefit payment processing tax device has proven that it accomplishes that.

Now, for the man who approves the adjustment program in general, including the benefit payments, but who objects to the processing tax that makes it possible. What is the answer? If he thinks far enough to examine the alternatives he will eventually come back to the processing tax, even though he doesn't like it. That is what the Adjustment Administration has done. It has come back to the processing tax, because no better alternative has yet been presented.

Livestock Income Illustrates Need of Adjustment

After all, the best way to judge the processing tax and its cost is to judge the results it brings. I should like to point out a comparison of cattle and hog prices and slaughter, so you can draw your own conclusions from the facts in the actual experience.

We have taken the total cost to packers of all cattle and all hogs killed under inspected slaughter during the first 8 months of 1934, including processing taxes due on hogs, and the total slaughter of each, in terms of pounds live weight. We have compared these with figures for the same first 8 months of 1933. These figures show how much money was paid for cattle and how much for hogs, and how much of each the farmer had to feed and deliver.

In the case of cattle the packers paid 25.5 percent more total money in 1934 than in 1933, and the farmers delivered 16 percent more stock. In the case of hogs the packers paid 35 percent more money, and the farmer delivered 12 percent less stock. In other words if you were an average cattle-man you had to feed and deliver 16 percent more cattle to get 25.5 percent more money. But your neighbor across the road, if he were an average hog man, fed and delivered 12 percent less hogs and he got about 35 percent more money, including his benefit payments.

Lest the drought cattle buying program might have swung this ratio out of proportion and exerted an unnatural influence let us see what the comparison was for the first five months, ending with June 1.

In the case of cattle the packers paid 37 percent more money for 16 percent more cattle. At the same time they paid 45.6 percent more money for 5.5 percent less hogs. Those figures tell the story of the processing tax and the adjustment program more eloquently than words.

As a matter of fact it is only by the examining of the facts and figures, the conditions and results, and then planning accordingly that an economic democracy can function successfully. That is the way your fathers and grandfathers did. They produced to meet the demand, and they did all they could to increase that demand.

We must continue our efforts to increase demand. Volume can be restored as exports and imports are restored. Those groups who are interested in volume would do well to direct their efforts in that direction, for there they can accomplish much. But never again, with farmers on guard as they are, can volume be restored, merely for the sake of volume, at the expense of agriculture.

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